

**ENKA İNŞAAT VE SANAYİ
ANONİM ŞİRKETİ
AND ITS SUBSIDIARIES**

Condensed Consolidated Interim Financial
Statements As at and for the Six-Months Period
Ended
30 June 2018

13 August 2018

This interim report includes 2 pages independent auditors' review report and 26 pages of condensed consolidated interim financial statements with their explanatory notes.

Independent Auditors' Report on Review of Consolidated Interim Financial Information

To the Board of Directors of Enka İnşaat ve Sanayi Anonim Şirketi

Introduction

We have reviewed the accompanying condensed consolidated statement of financial position of Enka İnşaat ve Sanayi Anonim Şirketi ("the Company") and its subsidiaries and joint operations (collectively referred to as "the Group") as at 30 June 2018, the condensed consolidated statements of profit or loss, other comprehensive income, changes in equity and cash flows for the six months period then ended. Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with International Accounting Standards 34 *Interim Financial Reporting* ("IAS 34"). Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

Scope of Review

We conducted our review in accordance with Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* ("ISRE 2410"). A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with the Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information is not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting*.

KPMG Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik Anonim Şirketi
A member firm of KPMG International Cooperative

Erdal Tıkmak, SMMM
Partner

13 August 2018
Istanbul, Turkey

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ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES**CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2018**

(Amounts are expressed in thousands of U.S. Dollars (“USD”) unless otherwise stated.)

ASSETS	Note	30 June 2018	31 December 2017
Current Assets		2.265.870	2.086.281
Cash and cash equivalents		921.601	781.718
Financial investments		495.967	578.886
Trade receivables		375.166	306.459
Other receivables			
Other receivables from related parties		84	21
Other receivables from third parties		891	793
Inventories		288.981	223.772
Prepaid expenses		76.594	90.103
Costs and estimated earnings in excess of billings on uncompleted contracts	5	22.183	12.168
Other current assets		60.870	68.725
		<u>2.242.337</u>	<u>2.062.645</u>
Assets held for sale		23.533	23.636
Non-Current Assets		5.649.834	5.945.008
Financial investments		1.909.059	2.118.672
Trade receivables		44.997	46.877
Investment properties	6	2.011.160	2.081.941
Property, plant and equipment	7	1.593.469	1.614.651
Intangible assets			
Goodwill		22.077	22.077
Other intangible assets		38.222	34.959
Deferred tax assets		2.425	2.759
Prepaid expenses		23.903	18.745
Other non-current assets		4.522	4.327
TOTAL ASSETS		<u>7.915.704</u>	<u>8.031.289</u>

The accompanying notes form an integral part of these condensed consolidated interim financial statements.

ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2018

(Amounts are expressed in thousands of U.S. Dollars (“USD”) unless otherwise stated.)

LIABILITIES	Note	30 June 2018	31 December 2017
Current Liabilities		1.043.441	949.558
Short-term borrowings		46.573	40.105
Current portion of long-term borrowings		20.399	37.598
Trade payables		371.583	153.562
Payables to employees		26.589	26.704
Other payables			
Payables to related parties		46	34
Payables to third parties		22.170	19.513
Billings in excess of costs and estimated earnings on uncompleted contracts	5	199.010	267.629
Deferred income		210.118	224.234
Taxation on income		40.380	60.188
Provisions			
Provisions for employee benefits		10.022	20.460
Other provisions		53.425	50.795
Other current liabilities		43.126	48.736
Non-Current Liabilities		733.080	797.918
Long-term borrowings		231.061	233.807
Trade payables		-	59.002
Other payables		17.802	17.997
Deferred income		2.121	4.412
Provisions for employee benefits		14.152	15.520
Deferred tax liabilities		467.944	467.180
EQUITY		6.139.183	6.283.813
Equity Attributable to Equity Holders of the Parent		6.064.738	6.207.493
Share capital	10	2.639.338	2.556.803
Treasury Shares	10	(42.490)	(25.866)
Revaluation surplus		175.081	176.262
Currency translation difference		(1.197.915)	(1.094.940)
Other reserves		280	280
Legal reserves and accumulated profit		4.490.444	4.594.954
Non-Controlling Interests		74.445	76.320
TOTAL LIABILITIES AND EQUITY		7.915.704	8.031.289

The accompanying notes form an integral part of these condensed consolidated interim financial statements.

ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES

CONDENSED CONSOLIDATED INTERIM STATEMENT OF PROFIT OR LOSS FOR THE PERIOD ENDED 30 JUNE 2018

(Amounts are expressed in thousands of U.S. Dollars (“USD”) unless otherwise stated.)

	1 January- 30 June 2018	1 January- 30 June 2017	1 April- 30 June 2018	1 April- 30 June 2017
CONTINUING OPERATIONS				
Revenue	1.242.844	1.361.362	692.314	699.259
Cost of revenues (-)	(873.684)	(1.029.661)	(514.300)	(527.074)
GROSS PROFIT	369.160	331.701	178.014	172.185
Administrative expenses (-)	(46.174)	(45.497)	(25.725)	(26.472)
Marketing, selling and distribution expenses (-)	(13.168)	(15.781)	(6.616)	(9.681)
Other operating income	19.564	7.672	9.626	3.373
Other operating expenses (-)	(14.311)	(7.227)	(9.414)	(1.648)
PROFIT FROM OPERATIONS	315.071	270.868	145.885	137.757
Income from investing activities	74.466	233.474	34.707	105.899
Expenses from investing activities (-)	(207.663)	(43.440)	(162.521)	(20.178)
OPERATING PROFIT BEFORE FINANCE EXPENSES	181.874	460.902	18.071	223.478
Financial income	27.977	8.533	19.886	1.188
Financial expenses (-)	(21.639)	(9.443)	(11.735)	7.186
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS	188.212	459.992	26.222	231.852
Current tax expense (-)	(57.316)	(60.722)	(26.700)	(18.153)
Deferred tax expense (-)	(10.649)	(20.845)	(8.378)	(7.648)
NET PROFIT (LOSS) FOR THE PERIOD	120.247	378.425	(8.856)	206.051
Attributable to:				
Non-controlling interest	916	6.229	2.172	3.267
Equity holders of the parent	119.331	372.196	(11.028)	202.784
	120.247	378.425	(8.856)	206.051
Earning / (Loss) per share from continuing operations				
- ordinary share certificate (full USD)	0,02	0,07	-	0,04
Weighted average number of shares (1 dollar weighted average shares)				
	4.965.000.000	4.965.000.000	4.965.000.000	4.965.000.000

The accompanying notes form an integral part of these condensed consolidated interim financial statements.

ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES

CONDENSED CONSOLIDATED INTERIM STATEMENT OF OTHER COMPREHENSIVE INCOME FOR THE PERIOD ENDED 30 JUNE 2018

(Amounts are expressed in thousands of U.S. Dollars (“USD”) unless otherwise stated.)

	1 January- 30 June 2018	1 January- 30 June 2017	1 April- 30 June 2018	1 April- 30 June 2017
NET PROFIT FOR THE PERIOD	120.247	378.425	(8.856)	206.051
Other Comprehensive Income / (Expense):				
Items that will not be reclassified subsequently to profit or loss	(512)	158	(549)	(292)
Changes in currency translation difference in revaluation fund of property	(512)	158	(549)	(292)
Items that may be reclassified subsequently to profit or loss	(105.332)	47.853	(123.336)	(47.533)
Changes in currency translation difference	(105.332)	47.853	(123.336)	(47.533)
OTHER COMPREHENSIVE INCOME / (LOSS)	(105.844)	48.011	(123.885)	(47.825)
TOTAL COMPREHENSIVE INCOME	14.403	426.436	(132.741)	158.226
Attributable to:				
Non-controlling interest	(1.441)	10.956	(2.161)	6.945
Equity holders of the parent	15.844	415.480	(130.580)	151.281
	14.403	426.436	(132.741)	158.226

The accompanying notes form an integral part of these condensed consolidated interim financial statements.

ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD ENDED 30 JUNE 2018

(Amounts are expressed in thousands of U.S. Dollars (“USD”) unless otherwise stated.)

	Share capital	Treasury Shares	Revaluation surplus	Currency translation difference	Other reserves	Legal reserves and accumulated profit	Total	Non-controlling interests	Total equity
Balance at 1 January 2017	2.445.227	(12.032)	182.004	(1.190.023)	(541)	4.241.948	5.666.583	61.920	5.728.503
Total other comprehensive income	-	-	158	43.126	-	-	43.284	4.727	48.011
Profit for the period	-	-	-	-	-	372.196	372.196	6.229	378.425
Total comprehensive income	-	-	158	43.126	-	372.196	415.480	10.956	426.436
Transfer of depreciation difference (net of deferred tax) of revaluation effect	-	-	(919)	-	-	919	-	-	-
Share capital increase	111.576	-	-	-	-	(111.576)	-	-	-
Dividends paid	-	-	-	-	-	(144.975)	(144.975)	(442)	(145.417)
Balance at 30 June 2017	2.556.803	(12.032)	181.243	(1.146.897)	(541)	4.358.512	5.937.088	72.434	6.009.522
Balance at 1 January 2018	2.556.803	(25.866)	176.262	(1.094.940)	280	4.594.954	6.207.493	76.320	6.283.813
Total other comprehensive income	-	-	(512)	(102.975)	-	-	(103.487)	(2.357)	(105.844)
Profit for the period	-	-	-	-	-	119.331	119.331	916	120.247
Total comprehensive income	-	-	(512)	(102.975)	-	119.331	15.844	(1.441)	14.403
Increase (Decrease) through Treasury Share Transactions	-	(16.624)	-	-	-	-	(16.624)	-	(16.624)
Transfer of depreciation difference (net of deferred tax) of revaluation effect	-	-	(669)	-	-	669	-	-	-
Share capital increase	82.535	-	-	-	-	(82.535)	-	-	-
Dividends paid	-	-	-	-	-	(141.975)	(141.975)	(434)	(142.409)
Balance at 30 June 2018	2.639.338	(42.490)	175.081	(1.197.915)	280	4.490.444	6.064.738	74.445	6.139.183

The accompanying notes form an integral part of these condensed consolidated interim financial statements.

ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS FOR THE PERIOD ENDED 30 JUNE 2018

(Amounts are expressed in thousands of U.S. Dollars (“USD”) unless otherwise stated.)

	1 January- 30 June 2018	1 January- 30 June 2017
Cash flows from operating activities		
Profit for the period	120.247	378.425
Adjustments to reconcile net income		
to net cash used in operating activities:		
- Depreciation and amortization of non-current assets	49.897	50.929
- Provision for employment termination benefits	556	1.308
- Allowance for doubtful receivables	62	118
- Provision for litigations	2.946	1.394
- Adjustments to deferred income from electricity sale	(78.999)	(81.162)
- Loss / (gain) from fair value of forward transactions	(7.700)	57
- Interest expense	2.272	2.489
- Interest income	(63.549)	(62.896)
- Dividend income	(7.517)	(6.010)
- Provision for inventory impairment, net	(76)	222
- Gain on sale or disposal of property, plant and equipment, net	(729)	(539)
- Valuation of investment securities	194.868	(97.407)
- Interest accrual	310	-
- Tax expense	67.965	81.567
	<u>280.553</u>	<u>268.495</u>
Movements in working capital		
Decrease in trade and other receivables	(67.826)	40.256
Decrease / (Increase) in cost and estimated earnings in excess of billings on uncompleted contracts	(10.014)	(18.656)
(Increase) / Decrease in inventory	(65.132)	2.038
(Increase) / Decrease in other current assets and other non current assets	16.017	(72.747)
Decrease / (Increase) in trade and other payables	159.016	119.212
(Increase) / Decrease in billings in excess of cost and estimated earnings on uncompleted contracts	(68.619)	(17.817)
Increase / (Decrease) in provision for liabilities and other liabilities	56.289	28.047
	<u>19.731</u>	<u>80.333</u>
Income taxes paid	(77.124)	(75.860)
Employee termination benefits paid	(1.149)	(1.411)
Net cash generated from operating activities	<u>222.011</u>	<u>271.557</u>
Cash flows from investing activities		
Purchases of financial investments	(179.424)	(304.844)
Sale of financial investments	276.855	349.579
Proceeds on disposal or sale of property, plant and equipment	5.811	2.018
Purchases of property, plant and equipment, intangible assets and investment properties	(101.043)	(141.027)
Interest received	58.886	59.286
Dividend income	7.517	6.010
Net cash used in investing activities	<u>68.602</u>	<u>(28.978)</u>
Cash flows from financing activities		
Short-term borrowings, net	(17.092)	-
Proceeds from borrowings	25.000	44.459
Repayments of borrowings	(7.588)	(22.247)
Purchase of treasury shares	(16.624)	-
Interest received	4.353	3.280
Interest paid	(1.562)	(1.982)
Dividend paid to non-controlling interests	(434)	(442)
Dividend paid	(141.975)	(144.975)
Net cash used in financing activities	<u>(155.922)</u>	<u>(121.907)</u>
Translation reserve	5.192	19.691
Net increase / (decrease) in cash and cash equivalents	<u>139.883</u>	<u>140.363</u>
Cash and cash equivalents at beginning of the period	780.718	999.020
Cash and cash equivalents at end of the period	<u>920.601</u>	<u>1.139.383</u>

The accompanying notes form an integral part of these condensed consolidated interim financial statements.

ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2018

(Amounts are expressed in thousands of U.S. Dollars (“USD”) unless otherwise stated.)

1. ORGANIZATIONS AND OPERATIONS OF THE GROUP

Enka İnşaat ve Sanayi Anonim Şirketi (“the Group”) was established on 4 December 1967 and registered in İstanbul, Turkey, under the Turkish Commercial Code. The address of the headquarters and registered office of Enka İnşaat is Balmumcu, Zincirlikuyu Yolu No:10, 34349 Enka Binası Beşiktaş, İstanbul, Turkey.

As of 28 June 2002, Enka İnşaat merged legally with its publicly traded shareholder company, Enka Holding Yatırım Anonim Şirketi (“Enka Holding”), which were under the common control of Tara Holding Anonim Şirketi and Tara and Gülçelik families. As of 30 June 2018, 11.98% of the shares of Enka İnşaat is traded publicly in İstanbul Stock Exchange (“ISE”).

As of 30 June 2018, the average numbers of white and blue-collar personnel are respectively 4,615 and 13,162 (31 December 2017 – 4,641 and 15,751).

For the purpose of the condensed consolidated interim financial statements, Enka İnşaat, its consolidated subsidiaries and its joint operations are hereinafter referred to as “the Group”.

The Group operates in geographical areas below:

- i. *Turkey*: engaged in diverse types of construction activities including construction of industrial and social buildings, motorways and construction and operation of natural gas fired electrical energy generation facilities. Additionally the Group is operating in trading activities.
- ii. *Russian Federation, Turkmenistan, Georgia and Kazakhstan*: engaged in construction activities and also in investment and development of real estate properties and shopping malls in Moscow, Russia.
- iii. Engaged in construction activities in Gabon, Kenya, Djibouti, Mauritania and Equatorial Guinea in Africa; Saudi Arabia, Sri Lanka, India, Oman, Iraq and Afganistan in Asia and also in Mexico and Paraguay.
- iv. *Europe*: engaged in construction and trading activities in Romania, the Netherlands, Switzerland, Greece, Germany and Kosovo.

2. BASIS OF PRESENTATION OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2.1 Basis of accounting

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting*, and should be read in conjunction with the Group’s last annual consolidated financial statements as at and for the year ended 31 December 2017 (‘last annual financial statements’). They do not include all of the information required for a complete set of IFRS financial statements. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group’s financial position and performance since the last annual financial statements.

These interim financial statements were authorised for issue by the Company’s Board of Directors on 13 August 2018.

The condensed consolidated interim financial statements are presented in U.S. Dollars (“USD”) and all values are rounded to the nearest thousand (’000) except when otherwise indicated.

2.2 Use of judgements and estimates

In preparing these condensed consolidated interim financial statements, management has made judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

The significant judgements made by management in applying the Group’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 December 2017.

2.3 Comparative information and reclassification of prior year financial statements

The Group prepares comparative condensed consolidated interim financial statements, to enable readers to determine financial position and performance trends. For the purposes of effective comparison, comparative consolidated financial statements can be reclassified when deemed necessary by the Group, where descriptions on significant differences are disclosed. In the current year, the Group had made no reclassification.

ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2018

(Amounts are expressed in thousands of U.S. Dollars (“USD”) unless otherwise stated.)

2. BASIS OF PRESENTATION OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (cont’d)

2.4 Changes in the accounting policies

With the exception of followings, the accounting policies applied in the interim condensed consolidated financial statements as at and for six months period ended 30 June 2018 are the same as those applied in the last annual financial statements as at and for the year ended 31 December 2017.

2.4.1 IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized and replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations.

IFRS 15 establishes the principles that an entity applies when reporting information about the nature, amount, timing and uncertainty of revenue and cash flows from a contract with a customer. Applying IFRS 15, an entity recognises revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The new standart is effective for periods beginning on or after 1 January 2018 and the application of IFRS 15 has not had significant impact on the consolidated financial statements and performance of the group based on the analysis performed.

2.4.2 IFRS 9 Financial Instruments

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement.

The details of new significant accounting policies and the nature and effect of the changes to previous accounting policies are set out below:

i. Classification and measurement of financial assets and financial liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets of held to maturity, loans and receivables and available for sale.

The adoption of IFRS 9 has not had a significant effect on the Group’s accounting policies related to financial liabilities and derivative financial instruments.

Detailed information on how the Group classifies, measures and recognizes the related income and expenses in accordance with IFRS 9 is presented below.

Under IFRS 9, on initial recognition, a financial asset is classified as measured at: amortized cost; fair value through other comprehensive income (“FVOCI”) – debt investment; FVOCI – equity investment; or fair value through profit or loss (“FVTPL”). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. Derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2018

(Amounts are expressed in thousands of U.S. Dollars (“USD”) unless otherwise stated.)

2. BASIS OF PRESENTATION OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (cont’d)

2.4 Changes in the accounting policies (cont’d)

2.4.2 IFRS 9 Financial Instruments (cont’d)

i. Classification and measurement of financial assets and financial liabilities (cont’d)

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All financial assets not classified as measured at amortized cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

A financial asset (unless it is a trade receivable without a significant financing component that is initially measured at the transaction price) is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition.

The following accounting policies apply to the subsequent measurement of financial assets.

Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in profit or loss.
Financial assets at amortized cost	These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.
Debt investments at FVOCI	These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognized in profit or loss. Other net gains and losses are recognized in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.
Equity investments at FVOCI	These assets are subsequently measured at fair value. Dividends are recognized as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognized in OCI and are never reclassified to profit or loss.

ii. Impairment of financial assets

IFRS 9 replaces the “incurred loss” model in IAS 39 with an “expected credit loss” model. The new impairment model applies to financial assets measured at amortized cost and contract assets but not to investments in equity instruments.

The financial assets at amortized cost consist of trade receivables, cash and cash equivalents.

The Group recognizes loss allowances for the expected credit losses of the following items under IFRS 9:

- financial assets measured at amortized cost;

ENKA İNŞAAT VE SANAYİ A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2018

(Amounts are expressed in thousands of U.S. Dollars (“USD”) unless otherwise stated.)

2. BASIS OF PRESENTATION OF THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (cont’d)

2.4 Changes in the accounting policies (cont’d)

2.4.2 IFRS 9 Financial Instruments (cont’d)

ii. Impairment of financial assets (cont’d)

The Group measures loss allowances at an amount equal to lifetime expected credit losses, except for the following, which are measured as 12-month expected credit losses:

- bank balances for which credit risk has not increased significantly since initial recognition.

Loss allowances for trade receivables, other receivables, other assets and contract assets are always measured at an amount equal to lifetime expected credit losses.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating expected credit losses, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group’s historical experience and informed credit assessment and including forward-looking information.

The Group considers a financial asset to be in default when:

- the borrower is unlikely to pay its to the Group in full, without recourse by the Group to actions such as realizing security (if any is held); or the financial asset is more than 360 days past due.

The Group considers bank balances to have low credit risk which is equivalent to the globally understood definition of ‘investment grade’. The maximum period considered when estimating expected credit losses is the maximum contractual period over which the Group is exposed to credit risk.

Measurement of expected credit losses:

Expected credit losses are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls.

Expected credit losses are discounted at the effective interest rate of the financial asset.

For trade receivables, other receivables, other assets and contract assets the Group applies the simplified approach to providing for expected credit losses. The expected credit losses were calculated based on actual credit loss experience over the past years.

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortized cost are credit-impaired. A financial asset is ‘credit-impaired’ when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Presentation of impairment

Provision for losses on financial assets measured at amortized cost is deducted from the gross carrying amount of the assets. The impairment loss arising on debt instruments measured at fair value through other comprehensive income, is reflected in other comprehensive income rather than reducing the carrying amount of the financial asset in the statement of financial position.

Impact of the IFRS 9

Since the Group had adopted IFRS 9 (2009) in 2010, IFRS 9 (2014) does not have an impact on the Group’s financial statement in terms of classification and measurement. IFRS 9 (2014) have different impairment model from the IFRS 9 (2009). Such new impairment model has not had a significant impact on the Group’s financial statements based on the analysis performed.

As of 1 January 2018, the Group does not expect that application of IFRS 9 will have significant impact on its consolidated financial statements.

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2018

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2. BASIS OF PRESENTATION OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (cont’d)

2.5 Standards and interpretations issued but not yet effective

As of 30 June 2018, the standards and interpretations issued but not yet effective and not early adopted

Standards issued but not yet effective and not early adopted

New standards, interpretations and amendments to existing standards are not effective at reporting date and earlier application is permitted; however the Group has not early adopted are as follows. The Group will make the necessary changes if not indicated otherwise, which will be affecting the consolidated financial statements and disclosures, after the new standards and interpretations become in effect.

IFRS 16 Leases

On 16 April 2018, POA issued the new leasing standard which will replace IAS 17 *Leases*, IFRS Interpretation 4 *Determining Whether an Arrangement Contains a Lease*, IAS Interpretation 15 *Operating Leases – Incentives*, and IAS Interpretation 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease* and consequently changes to IAS 40 *Investment Properties*. IFRS 16 *Leases* eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. Lessor accounting remains similar to current practice. The standard is effective for annual periods beginning on or after 1 January 2019, with early adoption permitted provided that an entity also adopts IFRS 15 *Revenue from Contracts with Customers*. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 16.

IFRS Interpretation 23 –Uncertainty Over Income Tax Treatments

On 24 May 2018, POA issued IFRS Interpretation 23 *Uncertainty over Income Tax Treatments* to specify how to reflect uncertainty in accounting for income taxes. It may be unclear how tax law applies to a particular transaction or circumstance, or whether a taxation authority will accept a company’s tax treatment. IAS 12 *Income Taxes* specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. IFRS Interpretation 23 provides requirements that add to the requirements in IAS 12 by specifying how to reflect the effects of uncertainty in accounting for income taxes. The Interpretation is effective from 1 January 2019 with earlier application is permitted. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS Interpretation 23.

Amendments to IFRS 9 - Prepayment features with negative compensation

On December 2017, POA has issued amendments to IFRS 9 to clarify that financial assets containing prepayment features with negative compensation can now be measured at amortised cost or at fair value through other comprehensive income (FVOCI) if they meet the other relevant requirements of IFRS 9. Under IFRS 9, a prepayment option in a financial asset meets this criterion if the prepayment amount substantially represents unpaid amounts of principal and interest, which may include ‘reasonable additional compensation’ for early termination of the contract. The amendments are effective for periods beginning on or after 1 January 2019, with earlier application permitted. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of the amendments to IFRS 9.

Standards issued but not yet effective and not early adopted (cont’d)

Amendments to IAS 28- Long-term Interests in Associates and Joint Ventures

On December 2017, POA has issued amendments to IAS 28 to clarify that entities also apply IFRS 9 to other financial instruments in an associate or joint venture to which the equity method is not applied. These include long-term interests that, in substance, form part of the entity’s net investment in an associate or joint venture. An entity applies IFRS 9 to such long-term interests before it applies related paragraphs of IAS 28. In applying IFRS 9, the entity does not take account of any adjustments to the carrying amount of long-term interests that arise from applying IAS 28. The amendments are effective for periods beginning on or after 1 January 2019, with earlier application permitted.

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2. BASIS OF PRESENTATION OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (cont’d)

2.5 Summary of significant accounting policies (cont’d)

The new standards, amendments and interpretations that are issued by the International Accounting Standards Board (“IASB”) but not issued by POA

The following standards, interpretations and amendments to existing IFRS standards are issued by the IASB but these standards, interpretations and amendments to existing IFRS standards are not yet adapted/issued to IFRS by the POA, thus they do not constitute part of IFRS. Such standards, interpretations and amendments that are issued by the IASB but not yet issued by the POA are referred to as IFRS or IAS. The Group will make the necessary changes to its consolidated financial statements after the new standards and interpretations are issued and become effective under IFRS.

Annual Improvements to IFRSs 2015-2017 Cycle **Improvements to IFRSs**

IASB issued Annual Improvements to IFRSs - 2015–2017 Cycle. The amendments are effective as of 1 January 2019. Earlier application is permitted. The Group does not expect that application of these improvements to IFRSs will have significant impact on its consolidated financial statements.

IFRS 3 Business Combinations and IFRS 11 Joint Arrangements

IFRS 3 and IFRS 11 are amended to clarify how a company accounts for increasing its interest in a joint operation that meets the definition of a business. If a party obtains control, then the transaction is a business combination achieved in stages and the acquiring party remeasures the previously held interest at fair value. If a party maintains (or obtains) joint control, then the previously held interest is not remeasured.

IAS 12 Income Taxes

IAS 12 is amended to clarify that all income tax consequences of dividends (including payments on financial instruments classified as equity) are recognised consistently with the transactions that generated the distributable profits – i.e. in profit or loss, other comprehensive income (OCI) or equity.

IAS 23 Borrowing Costs

IAS 23 is amended to clarify that the general borrowings pool used to calculate eligible borrowing costs excludes only borrowings that specifically finance qualifying assets that are still under development or construction. Borrowings that were intended to specifically finance qualifying assets that are now ready for their intended use or sale – or any non-qualifying assets – are included in that general pool.

IAS 12 is amended to clarify that all income tax consequences of dividends (including payments on financial instruments classified as equity) are recognised consistently with the transactions that generated the distributable profits – i.e. in profit or loss, other comprehensive income (OCI) or equity.

IAS 23 Borrowing Costs

IAS 23 is amended to clarify that the general borrowings pool used to calculate eligible borrowing costs excludes only borrowings that specifically finance qualifying assets that are still under development or construction. Borrowings that were intended to specifically finance qualifying assets that are now ready for their intended use or sale – or any non-qualifying assets – are included in that general pool.

Amendments to IAS 19 - Plan Amendment, Curtailment or Settlement -

On 7 February 2018, IASB issued Plan Amendment, Curtailment or Settlement (Amendments to IAS 19). The amendments clarify the accounting when a plan amendment, curtailment or settlement occurs. A company now uses updated actuarial assumptions to determine its current service cost and net interest for the period; and the effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income (OCI). The amendments are effective for periods beginning on or after 1 January 2019, with earlier application permitted. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of the amendments to IAS 19.

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2. BASIS OF PRESENTATION OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (cont’d)

2.5 Summary of significant accounting policies (cont’d)

The new standards, amendments and interpretations that are issued by the IASB but not issued by POA (cont’d)

The revised Conceptual Framework

The revised Conceptual Framework issued on 28 March 2018 by the IASB. The Conceptual Framework sets out the fundamental concepts for financial reporting that guide the Board in developing IFRS Standards. It helps to ensure that the Standards are conceptually consistent and that similar transactions are treated the same way, so as to provide useful information for investors, lenders and other creditors. The Conceptual Framework also assists companies in developing accounting policies when no IFRS Standard applies to a particular transaction, and more broadly, helps stakeholders to understand and interpret the Standards. The revised Framework is more comprehensive than the old one – its aim is to provide the Board with the full set of tools for standard setting. It covers all aspects of standard setting from the objective of financial reporting, to presentation and disclosures. For companies that use the Conceptual Framework to develop accounting policies when no IFRS Standard applies to a particular transaction, the revised Conceptual Framework is effective for annual reporting periods beginning on or after 1 January 2020, with earlier application permitted.

3. CHANGES IN OPERATIONAL SEASON

The Group’s operations related to construction slow down during the winter season and differ significantly from other operational areas.

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2018

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4. SEGMENTAL INFORMATION

The Group’s operating businesses are organized and managed separately according to the nature of services and products provided and has four reportable segments as follows: construction, rental, energy and trading and manufacturing.

a) Business segments

	1 January - 30 June 2018					
	Construction contracts	Rental	Trade	Energy	Eliminations	Consolidated
Revenues	437.884	161.229	111.060	532.671	-	1.242.844
Inter-segment revenues	48.656	-	4.354	9.293	(62.303)	-
Cost of revenues (-)	(341.991)	(63.159)	(87.110)	(381.424)	-	(873.684)
Inter-segment cost of revenues (-)	(48.656)	-	(4.354)	(9.293)	62.303	-
Gross profit	95.893	98.070	23.950	151.247	-	369.160
Administrative expenses (-)	(30.315)	(6.327)	(5.629)	(3.957)	54	(46.174)
Marketing expenses (-)	(5.911)	(2.592)	(4.665)	-	-	(13.168)
Other operating income	11.025	3.207	1.537	3.795	-	19.564
Other operating expenses (-)	(12.205)	(849)	(1.088)	(169)	-	(14.311)
Profit from operations	58.487	91.509	14.105	150.916	54	315.071
Investment income	74.466	-	-	-	-	74.466
Investment expenses (-)	(207.663)	-	-	-	-	(207.663)
Profit from operations before financial income / (expenses)	(74.710)	91.509	14.105	150.916	54	181.874
Financial income	7.377	1.936	9.160	10.825	(1.321)	27.977
Financial expenses (-)	(11.287)	(3.297)	(3.777)	(4.488)	1.210	(21.639)
Profit / (loss) before tax	(78.620)	90.148	19.488	157.253	(57)	188.212
Current tax expense (-)	(15.791)	(13.461)	(3.053)	(25.011)	-	(57.316)
Deferred taxation income/ (expenses)	5.717	(3.718)	804	(13.452)	-	(10.649)
Profit / (loss) for the period from continuing operations	(88.694)	72.969	17.239	118.790	(57)	120.247

	30 June 2018					
	Construction contracts	Rental	Trade	Energy	Consolidated	
Segment assets	4.103.867	2.127.617	312.893	1.371.327	7.915.704	
Total assets	4.103.867	2.127.617	312.893	1.371.327	7.915.704	
Segment liabilities	692.791	408.299	180.318	495.113	1.776.521	
Total liabilities	692.791	408.299	180.318	495.113	1.776.521	

	1 January - 30 June 2018					
	Construction contracts	Rental	Trade	Energy	Consolidated	
Other segment information						
<u>Capital expenditures</u>						
Property, plant and equipment & investment property	45.097	50.201	295	1.677	97.270	
Intangible assets	3.608	33	-	132	3.773	
Total capital expenditures	48.705	50.234	295	1.809	101.043	
Depreciation expense	19.864	1.334	727	26.639	48.564	
Amortisation	1.185	38	34	76	1.333	

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2018

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4. SEGMENTAL INFORMATION (cont’d)

a) Business segments(cont’d)

	1 April - 30 June 2018					Consolidated
	Construction contracts	Rental	Trade	Energy	Eliminations	
Revenues	226.266	82.073	52.179	331.796	-	692.314
Inter-segment revenues	16.810	-	2.008	3.672	(22.490)	-
Cost of revenues (-)	(177.207)	(34.130)	(41.352)	(261.611)	-	(514.300)
Inter-segment cost of revenues (-)	(16.810)	-	(2.008)	(3.672)	22.490	-
Gross profit	49.059	47.943	10.827	70.185	-	178.014
Administrative expenses (-)	(17.805)	(3.255)	(2.191)	(2.499)	25	(25.725)
Marketing expenses (-)	(3.155)	(1.215)	(2.246)	-	-	(6.616)
Other operating income	4.674	2.935	90	1.927	-	9.626
Other operating expenses (-)	(7.469)	(785)	(997)	(163)	-	(9.414)
Profit from operations	25.304	45.623	5.483	69.450	25	145.885
Investment income	34.707	-	-	-	-	34.707
Investment expenses (-)	(162.521)	-	-	-	-	(162.521)
Profit from operations before financial income / (expenses)	(102.510)	45.623	5.483	69.450	25	18.071
Financial income	3.643	1.814	6.668	8.234	(473)	19.886
Financial expenses (-)	(4.028)	(2.577)	(2.709)	(3.033)	612	(11.735)
Profit before tax	(102.895)	44.860	9.442	74.651	164	26.222
Current tax expense (-)	(7.261)	(4.350)	(1.031)	(14.058)	-	(26.700)
Deferred taxation income/ (expenses)	1.167	(3.253)	(212)	(6.080)	-	(8.378)
Profit for the period from continuing operations	(108.989)	37.257	8.199	54.513	164	(8.856)
	1 April - 30 June 2018					
Other segment information	Construction contracts	Rental	Trade and manufacturing	Energy	Consolidated	
<u>Capital expenditures</u>						
Property, plant and equipment & investment property	18.068	20.517	92	1.508	40.185	
Intangible assets	3.212	9	-	111	3.332	
Total capital expenditures	21.280	20.526	92	1.619	43.517	
Depreciation expense	8.355	634	328	13.309	22.626	
Amortisation	610	13	21	40	684	

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2018

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4. SEGMENTAL INFORMATION (cont’d)

a) Business segments(cont’d)

	1 January - 30 June 2017					
	Rental	Trade	Energy	Eliminations	Consolidated	
Revenues	457.178	156.006	121.407	626.771	-	1.361.362
Inter-segment revenues	63.141	-	1.837	9.554	(74.532)	-
Cost of revenues (-)	(374.904)	(53.170)	(97.598)	(503.989)	-	(1.029.661)
Inter-segment cost of revenues (-)	(63.141)	-	(1.644)	(9.554)	74.339	-
Gross profit	82.274	102.836	24.002	122.782	(193)	331.701
Administrative expenses (-)	(29.397)	(6.906)	(5.012)	(4.182)	-	(45.497)
Marketing expenses (-)	(7.132)	(3.051)	(5.588)	(10)	-	(15.781)
Other operating income	5.838	866	729	239	-	7.672
Other operating expenses (-)	(5.388)	(1.244)	(562)	(33)	-	(7.227)
Profit from operations	46.195	92.501	13.569	118.796	(193)	270.868
Investment income	233.433	-	-	41	-	233.474
Investment expenses (-)	(42.696)	(744)	-	-	-	(43.440)
Profit from operations before financial income / (expenses)	236.932	91.757	13.569	118.837	(193)	460.902
Financial income	3.857	1.300	1.678	3.039	(1.341)	8.533
Financial expenses (-)	(7.148)	(2.282)	(1.574)	(87)	1.648	(9.443)
Profit before tax	233.641	90.775	13.673	121.789	114	459.992
Current tax expense (-)	(25.200)	(17.839)	(3.010)	(14.673)	-	(60.722)
Deferred taxation income/ (expenses)	(4.881)	(2.334)	401	(14.031)	-	(20.845)
Profit for the period from continuing operations	203.560	70.602	11.064	93.085	114	378.425
	31 December 2017					
	Construction contracts	Rental	Trade	Energy	Consolidated	
Segment assets	4.232.520	2.204.963	230.174	1.363.632	8.031.289	
Total assets	4.232.520	2.204.963	230.174	1.363.632	8.031.289	
Segment liabilities	696.449	430.388	91.396	529.243	1.747.476	
Total liabilities	696.449	430.388	91.396	529.243	1.747.476	

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2018

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4. SEGMENTAL INFORMATION (cont'd)

a) Business segments(cont'd)

	1 January - 30 June 2017					
	Construction contracts	Rental	Trade	Energy	Consolidated	
Other segment information						
<u>Capital expenditures</u>						
Property, plant and equipment & investment property	43.628	66.411	245	28.126	138.410	
Intangible assets	2.378	92	92	55	2.617	
Total capital expenditures	46.006	66.503	337	28.181	141.027	
Depreciation expense	20.834	1.627	460	26.772	49.693	
Amortisation	1.097	39	36	64	1.236	
	1 April - 30 June 2017					
	Construction contracts	Rental	Trade	Energy	Eliminations	Consolidated
Revenues	234.293	78.597	79.514	306.855	-	699.259
Inter-segment revenues	37.493	-	1.530	6.582	(45.605)	-
Cost of revenues (-)	(186.040)	(27.302)	(64.384)	(249.348)	-	(527.074)
Inter-segment cost of revenues (-)	(37.493)	-	(1.337)	(6.582)	45.412	-
Gross profit	48.253	51.295	15.323	57.507	(193)	172.185
Administrative expenses (-)	(17.674)	(3.057)	(3.220)	(2.472)	(49)	(26.472)
Marketing expenses (-)	(4.325)	(1.662)	(3.694)	-	-	(9.681)
Other operating income	2.358	487	360	168	-	3.373
Other operating expenses (-)	(423)	(1.099)	(106)	(20)	-	(1.648)
Profit from operations	28.189	45.964	8.663	55.183	(242)	137.757
Investment income	105.858	-	-	41	-	105.899
Investment expenses (-)	(19.804)	(374)	-	-	-	(20.178)
Profit from operations before financial income / (expenses)	114.243	45.590	8.663	55.224	(242)	223.478
Financial income	2.408	(390)	(588)	863	(1.105)	1.188
Financial expenses (-)	7.881	(931)	(1.080)	333	983	7.186
Profit before tax	124.532	44.269	6.995	56.420	(364)	231.852
Current tax expense (-)	(6.336)	(5.619)	(1.423)	(4.775)	-	(18.153)
Deferred taxation income/ (expenses)	644	(1.385)	(159)	(6.748)	-	(7.648)
Profit for the period from continuing operations	118.840	37.265	5.413	44.897	(364)	206.051
	1 April - 30 June 2017					
	Construction contracts	Rental	Trade and manufacturing	Energy	Consolidated	
Other segment information						
<u>Capital expenditures</u>						
Property, plant and equipment & investment property	32.627	40.650	232	24.310	97.819	
Intangible assets	911	-	92	45	1.048	
Total capital expenditures	33.538	40.650	324	24.355	98.867	
Depreciation expense	10.298	772	128	13.463	24.661	
Amortisation	616	15	13	32	676	

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2018

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4. SEGMENTAL INFORMATION (cont’d)

a) Business segments(cont’d)

Segment revenue, segment expense and segment result include transfers between business segments. Those transfers are eliminated in consolidation. For the period ended 30 June 2018, revenues amounting to USD 532,671 (30 June 2017 - USD 626,771) is from Türkiye Elektrik Ticaret ve Taahhüt A.Ş. (TETAŞ), the share of which in consolidated revenue exceeds 10%. For the period ended 30 June 2018, cost of sales of the above mentioned revenues from TETAŞ, amounting to USD 325,027 (30 June 2017 - USD 429,308) is related with the purchases from Boru Hatları ile Petrol Taşıma A.Ş. (BOTAŞ), the share of which in consolidated cost of revenues exceeds 10%.

b) Geographical segments

1 January - 30 June 2018						
	Turkey	Russian Federation, Kazakhstan and Georgia	Iraq	Other	Eliminations	Consolidated
Net sales	734.508	318.909	68.514	120.913	-	1.242.844
Inter-segment sales	28.335	33.968	-	-	(62.303)	-
Capital expenditures	28.274	53.417	13.668	5.684	-	101.043
30 June 2018						
	Turkey	Russian Federation, Kazakhstan and Georgia	Iraq	Other	Eliminations	Consolidated
Segmental assets	4.972.393	2.616.804	97.448	229.059	-	7.915.704
1 April - 30 June 2018						
	Turkey	Russian Federation, Kazakhstan and Georgia	Iraq	Other	Eliminations	Consolidated
Net sales	432.707	164.427	29.301	65.879	-	692.314
Inter-segment sales	11.317	11.173	-	-	(22.490)	-
Capital expenditures	15.211	23.238	(97)	5.165	-	43.517
1 January - 30 June 2017						
	Turkey	Russian Federation, Kazakhstan and Georgia	Iraq	Other	Eliminations	Consolidated
Net sales	899.849	317.536	65.718	78.259	-	1.361.362
Inter-segment sales	23.147	51.385	-	-	(74.532)	-
Capital expenditures	71.659	67.683	93	1.592	-	141.027

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2018

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4. SEGMENTAL INFORMATION (cont’d)

b) Geographical segments(cont’d)

	31 December 2017					
	Turkey	Russian Federation, Kazakhstan and Georgia	Iraq	Other	Eliminations	Consolidated
Segmental assets	5.073.605	2.630.522	101.135	226.027	-	8.031.289
	1 April - 30 June 2017					
	Turkey	Russian Federation, Kazakhstan	Europe	Iraq & Other	Eliminations	Consolidated
Net sales	470.687	168.730	17.631	42.211	-	699.259
Inter-segment sales	13.571	32.034	-	-	(45.605)	-
Capital expenditures	56.627	41.131	90	1.019	-	98.867

5. CONSTRUCTION CONTRACTS

The Group’s construction contracts details as of 30 June 2018 and 31 December 2017 is as follows:

	30 June 2018	31 December 2017
Costs incurred on uncompleted contracts	2.670.604	2.259.859
Recognized profit less recognized losses to date, net	463.089	384.951
	<u>3.133.693</u>	<u>2.644.810</u>
Less: Progress billing	(3.310.520)	(2.900.271)
	<u>(176.827)</u>	<u>(255.461)</u>
	<u>(176.827)</u>	<u>(255.461)</u>
	30 June 2018	31 December 2017
Costs and estimated earnings in excess of billings on uncompleted contracts (net)	22.183	12.168
Billings in excess of costs and estimated earnings on uncompleted contracts (net)	(199.010)	(267.629)
	<u>(176.827)</u>	<u>(255.461)</u>
	<u>(176.827)</u>	<u>(255.461)</u>

As of 30 June 2018, the amount of advances received of subsidiaries and companies shares in joint operations is USD 35,455 (31 December 2017: USD 26,322).

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6. INVESTMENT PROPERTIES

As of 30 June 2018 and 2017, movement of investment properties is as follows:

	1 January - 30 June 2018	1 January - 30 June 2017
Opening balance	2.081.941	1.886.911
Currency translation difference	(119.988)	30.838
Additions	49.207	65.282
Closing balance	<u>2.011.160</u>	<u>1.983.031</u>

7. PROPERTY, PLANT AND EQUIPMENT

During the period ended 30 June 2018 the Group purchased property plant and equipment amounting to USD 48,063 (30 June 2017: USD 73,128). In addition during the period ended 30 June 2018 net book value of USD 5,082 (30 June 2017: USD 1,479) property plant and equipment sold for USD 5,811 (30 June 2017: USD 2,018).

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8. COMMITMENTS

Litigations

During the period ended 30 June 2018, the Group does not have any legal claims or progress to existing legal claims that need additional explanation other than disclosed as of 31 December 2017 the consolidated financial statements. The Group properly records the provision related to these carried forward legal claims. Provision rates and probable outflows are considered while estimating the provisions. The Group does not record provision for the legal claims that would not result in a probable cash outflow.

Commitments and contingencies

The breakdown of letters of guarantee, guarantee notes given, mortgage and pledges (together referred to as Guarantees) by the Group as of 30 June 2018 and 31 December 2017 is as follows:

Letters of guarantee, guarantee notes given, mortgage and pledges	30 June 2018		31 December 2017	
	Original Currency	USD Equivalent	Original Currency	USD Equivalent
A. Total amount of guarantees provided by the Company on behalf of itself		584.146		510.867
-USD	365.097	365.097	346.577	346.577
-EUR	124.161	144.539	76.192	91.213
-TL	101.844	22.331	79.838	21.166
-Others (*)		52.179		51.911
B. Total amount for guarantees provided on behalf of subsidiaries accounted under full consolidation method		143.775		69.282
-USD	85	85	85	85
-EUR	-	-	-	-
-TL	826	181	826	219
-Others (*)		143.509		68.978
C. Provided on behalf of third parties in order to maintain operating activities (to secure third party payables)		-		-
D. Other guarantees given		-		-
i. Total amount of guarantees given on behalf of the parent company		-		-
ii. Total amount of guarantees provided on behalf of the associates which are not in the scope of B and C		-		-
iii. Total amount of guarantees provided on behalf of third parties which are not in the scope of C		-		-
		<u>727.921</u>		<u>580.149</u>

(*) U.S Dollar equivalents of letters of guarantee, guarantee notes given, mortgage and pledges other than USD, TL and EUR. As of 30 June 2018 the portion of other guarantess given to shareholders' equity is 0% (31 December 2017 - 0%).

9. RELATED PARTY BALANCES AND TRANSACTIONS

No extraordinary or significant transaction is realized with related parties throughout the interim period.

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10. SHARE CAPITAL AND RESERVES

The shareholders of the Group and their percentage of ownership as of 30 June 2018 and 31 December 2017 is as follows:

	30 June 2018		31 December 2017	
	Percentage of ownership	Amount	Percentage of ownership	Amount
Tara Holding A.Ş.	49,72%	1.312.279	49,52%	1.266.129
Vildan Gülçelik	7,99%	210.883	7,99%	204.289
Sevda Gülçelik	6,43%	169.709	6,43%	164.402
Enka Spor Eğitim ve Sosyal Yardım Vakfı	5,87%	154.929	5,87%	150.084
Other	29,99%	791.538	30,19%	771.899
	100%	2.639.338	100%	2.556.803
Purchase of treasury shares (*)		(42.490)		(25.866)
		2.596.848		2.530.937

Based on the Group’s Ordinary General Assembly held on 28 March 2018; it has been resolved to increase the share capital from TL 4.600.000 to TL 5.000.000; and to cover TL 400.000 from the Reserves / (Dividend).

Based on the Group’s Ordinary General Assembly held on 28 March 2018; regarding to the distribution of the year 2017 profit, it has been resolved to distribute dividend to its shareholders for each TL 1 (full TL) nominal valued share net in total TL 901,000 (2017 - TL 784,000); further it has been resolved to distribute TL 32,348 (2017 - TL 29,352) as cash dividend to founder shares. Net in total TL 165,000 from TL 901,000 has been distributed as an advance dividend on 27 September 2017, net in total TL 184,000 from TL 901,000 has been distributed as an advance dividend on 13 December 2017 and the remaining amount net in total TL 552,000 is distributed on 17 April 2018.

11. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Foreign currency risk

The Group is exposed to foreign exchange risk arising from various currency exposures primarily with respect to Euro, Russian Ruble, TL and also U.S Dollar which arises from the liabilities belonging to the companies in the consolidation scope, whose the functional currency is not U.S Dollar.

The Group is engaged in construction, trading, energy and real estate operations business in several countries and, as a result, is exposed to movements in foreign currency exchange rates. In addition to transactional exposures, the Group is also exposed to foreign exchange movements on its net investments in foreign subsidiaries.

The Group manages foreign currency risk by using natural hedges that arise from offsetting foreign currency denominated assets and liabilities.

The foreign currency risk of the Group arises from the credits used in U.S. Dollars and Euro. In order to mitigate the risk, the Group continuously monitors its cash inflows/outflows and also uses financial instruments to hedge the risk when it is necessary.

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11. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont’d)

Foreign currency risk (cont’d)

The following table details the Group’s foreign currency position as at 30 June 2018 and 31 December 2017:

	30 June 2018	31 December 2017
A. Assets denominated in foreign currency	817.770	819.844
B. Liabilities denominated in foreign currency	(474.960)	(406.852)
Net foreign currency position (A+B)	<u>342.810</u>	<u>412.992</u>

The Group’s foreign currency position at 30 June 2018 and 31 December 2017 is as follows (non monetary items are not included in the table as they don’t have foreign currency risk):

	30 June 2018						Total USD Equivalent
	TL	USD Equivalent	Euro	USD Equivalent	Other USD (*)	USD (**)	
Cash and cash equivalents	14.984	3.286	59.034	68.721	226.237	11.594	309.838
Financial investments	254.946	55.901	106.924	124.470	59.397	-	239.768
Trade and other receivables	58.457	12.818	28.112	32.725	23.366	5.654	74.563
Other current assets	186.600	40.915	22.746	26.478	19.919	42.905	130.217
Current assets	514.987	112.920	216.816	252.394	328.919	60.153	754.386
Financial investments	-	-	11.367	13.232	38.369	-	51.601
Trade and other receivables	-	-	-	-	-	-	-
Other non-current assets	10.160	2.228	329	383	4.792	4.380	11.783
Non-current assets	10.160	2.228	11.696	13.615	43.161	4.380	63.384
Total assets	525.147	115.148	228.512	266.009	372.080	64.533	817.770
Short-term borrowings	564	124	30.704	35.743	26.722	-	62.589
Trade and other payables	69.180	15.169	25.747	29.972	135.016	646	180.803
Other current liabilities and accrued expenses	239.115	52.429	3.502	4.077	50.195	22.626	129.327
Current liabilities	308.859	67.722	59.953	69.792	211.933	23.272	372.719
Trade and other payables	-	-	-	-	-	-	-
Long-term borrowings	-	-	28.572	33.261	66.279	-	99.540
Other non-current liabilities	1.895	415	55	63	-	2.223	2.701
Non-current liabilities	1.895	415	28.627	33.324	66.279	2.223	102.241
Total liabilities	310.754	68.137	88.580	103.116	278.212	25.495	474.960
Net foreign currency position	214.393	47.011	139.932	162.893	93.868	39.038	342.810
Net notional amount of derivatives	-	-	96.278	112.077	-	105.375	217.452

(*) U.S.Dollar equivalents of the foreign currency balances other than TL and Euro.

(**) U.S.Dollar balances of consolidated subsidiaries and joint ventures whose functional currency is other than U.S.Dollar.

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11. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont’d)

Foreign currency risk (cont’d)

	31 December 2017						Total USD Equivalent
	TL	USD Equivalent	Euro	USD Equivalent	Other USD (*)	USD (**)	
Cash and cash equivalents	23.571	6.249	72.952	87.331	189.815	16.798	300.193
Financial investments	286.925	76.069	101.119	121.050	48.303	-	245.422
Trade and other receivables	122.326	32.431	21.694	25.970	23.301	3.629	85.331
Other current assets	207.691	55.063	3.998	4.785	19.705	42.825	122.378
Current assets	640.513	169.812	199.763	239.136	281.124	63.252	753.324
Financial investments	-	-	12.341	14.773	40.485	-	55.258
Trade and other receivables	10	3	-	-	-	-	3
Other non-current assets	9.192	2.437	35	42	4.276	4.504	11.259
Non-current assets	9.202	2.440	12.376	14.815	44.761	4.504	66.520
Total assets	649.715	172.252	212.139	253.951	325.885	67.756	819.844
Short-term borrowings	7	2	33.500	40.103	15.628	-	55.733
Trade and other payables	56.151	14.887	14.083	16.859	28.339	348	60.433
Other current liabilities and accrued expenses	340.102	90.167	4.061	4.861	40.858	18.946	154.832
Current liabilities	396.260	105.056	51.644	61.823	84.825	19.294	270.998
Trade and other payables	11	3	-	-	-	-	3
Long-term borrowings	-	-	50.090	59.963	72.921	-	132.884
Other non-current liabilities	3.180	843	-	-	-	2.124	2.967
Non-current liabilities	3.191	846	50.090	59.963	72.921	2.124	135.854
Total liabilities	399.451	105.902	101.734	121.786	157.746	21.418	406.852
Net foreign currency position	250.264	66.350	110.405	132.165	168.139	46.338	412.992
Net notional amount of derivatives	-	-	76.075	91.069	-	89.948	181.017

(*) U.S.Dollar equivalents of the foreign currency balances other than TL and Euro.

(**) U.S.Dollar balances of consolidated subsidiaries and joint ventures whose functional currency is other than U.S.Dollar.

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11. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont’d)

Foreign currency risk (cont’d)

	30 June 2018		31 December 2017	
	Profit / (loss)		Profit / (loss)	
	Valuation of foreign currency	Devaluation of foreign currency	Valuation of foreign currency	Devaluation of foreign currency
<i>In the case of TL gaining 10% value against US Dollar</i>				
1- TL net asset / (liability)	4.701	(4.701)	6.635	(6.635)
2- Portion hedged against TL risk (-)	-	-	-	-
3- TL net effect (1+2)	4.701	(4.701)	6.635	(6.635)
<i>In the case of Euro gaining 10% value against US Dollar</i>				
4- Euro net asset / (liability)	16.289	(16.289)	13.217	(13.217)
5- Portion hedged against Euro risk (-)	11.208	(11.208)	9.107	(9.107)
6- Euro net effect (4+5)	27.497	(27.497)	22.324	(22.324)
<i>In the case of other foreign currencies gaining 10% value against US Dollar</i>				
7- Other foreign currency net asset / (liability)	9.387	(9.387)	16.814	(16.814)
8- Portion hedged against other foreign currency risk (-)	10.538	(10.538)	8.995	(8.995)
9- Other foreign currency net effect (7+8)	19.925	(19.925)	25.809	(25.809)
Total (3+6+9)	52.123	(52.123)	54.768	(54.768)

12. FINANCIAL INSTRUMENTS – FAIR VALUE EXPLANATIONS AND ACCOUNTING POLICY FOR HEDGING FINANCIAL RISK

Fair value of financial assets and liabilities

Fair value is the amount for which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by a quoted market price, if one exists.

Foreign currency denominated receivables and payables are revalued with the exchange rates valid as of the date of the financial statements.

The following methods and assumptions were used to estimate the fair value of the financial instruments that are not carried at fair value on the balance sheet:

Financial assets

The fair values of cash, amounts due from banks and other monetary assets are considered to approximate their respective carrying values due to their short-term nature. The carrying values of trade receivables are estimated to be their fair values due to their short-term nature. It is considered that the fair values of the long term receivables are approximate to their respective carrying values as they are accounted for in foreign currencies.

Financial liabilities

The fair values of trade payables and other monetary liabilities are considered to approximate their respective carrying values due to their short-term nature. The fair values of bank borrowings are considered to approximate their respective carrying values, since initial rates applied to bank borrowings are updated periodically by the lender to reflect active market price quotations. The fair values of the trade receivables after discount are considered to be approximate to their corresponding carrying values. It is considered that the fair values of the long term payables and long term financial borrowings are approximate to their respective carrying values as they are accounted for in foreign currencies.

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12. FINANCIAL INSTRUMENTS – FAIR VALUE EXPLANATIONS AND ACCOUNTING POLICY FOR HEDGING FINANCIAL RISK (cont’d)

Fair value hierarchy

The Group classifies the fair value measurement of each class of financial instruments that are measured at fair value on the balance sheet, according to the source, using three-level hierarchy, as follows:

Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: Other valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: Valuation techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

30 June 2018

	Level 1	Level 2	Level 3
Private sector bonds	1.522.241	-	-
Equity securities	457.342	-	-
Foreign government bonds	360.376	-	-
Turkish government bonds	26.367	-	-
Mutual funds	38.700	-	-
Financial assets at fair value through profit or loss	2.405.026	-	-
Derivative instruments	-	(3.207)	-
Financial liabilities at fair value through profit or loss	-	(3.207)	-

31 December 2017

	Level 1	Level 2	Level 3
Private sector bonds	1.786.574	-	-
Equity securities	323.758	-	-
Foreign government bonds	457.950	-	-
Turkish government bonds	15.955	-	-
Mutual funds	113.321	-	-
Financial assets at fair value through profit or loss	2.697.558	-	-
Derivative instruments	-	3.881	-
Financial liabilities at fair value through profit or loss	-	3.881	-

13. SUBSEQUENT EVENTS

On 12 July 2018, according to the press release of the Capital Markets Board of Turkey (the Board) dated 25.07.2016 in order to protect the interests of minority shareholders, Board of Directors has resolved to buyback the shares up to nominal value of TL 5,000,000 , to determine the funds to be reserved as TL 50,000,000 for this purpose and to authorize Vice President İlhan Gücüyener for the transactions till the second announcement of the Board. As of 13 August 2018, the Group has bought back all of the nominal value of the shares which has been resolved by the Board of Directors.